

Best's Rating Report



Wilmington, Delaware



Ultimate Parent:
Cincinnati Financial Corporation
THE CINCINNATI SPECIALTY
UNDERWRITERS INSURANCE
COMPANY

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NAIC#: 13037

FEIN#: 65-1316588

BEST'S CREDIT RATING

Best's Financial Strength Rating: A+

Best's Financial Size Category: XV

Outlook: Stable

RATING RATIONALE

Rating Rationale: The ratings of The Cincinnati Insurance Company have been extended to the company based on the implicit and explicit support the company shares as part of the group.

The following text is derived from A.M. Best's Credit Report on The Cincinnati Insurance Companies (AMB# 004294).

The ratings apply to The Cincinnati Insurance Company and three subsidiaries, The Cincinnati Indemnity Company, The Cincinnati Casualty Company and The Cincinnati Specialty Underwriters Insurance Company, collectively referred to as The Cincinnati Insurance Companies (CIC), and are based on the consolidated results of these companies.

The ratings reflect CIC's superior risk-adjusted capitalization and historically conservative loss reserving standards that have resulted in the recognition of substantial favorable development of prior ac-

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cident year loss reserves. The ratings also reflect the group's historically strong operating earnings, which have improved in recent years. The generally favorable trend in operating earnings has been derived in part from improved underwriting performance, which has benefited from enhanced pricing techniques, better risk selection, increased use of technology including predictive modeling, and the establishment of direct workers' compensation claims reporting. In addition, the ratings recognize the strong distribution network within its targeted regional markets that is centered on cultivating strong, long-term relationships with local independent insurance agencies. CIC's relationships with its agent base are further strengthened by the local presence of field support associates, competitive commission structure and a comprehensive portfolio of insurance products. Lastly, CIC benefits from the financial flexibility afforded by Cincinnati Financial Corporation (CINF), which maintains modest financial leverage and is a source of additional liquidity through its line of credit and access to capital markets.

The positive rating factors are partially offset by the variability in CIC's earnings in the earliest year of the recent five-year period relative to its similarly rated commercial lines peers primarily due to significant natural catastrophe losses on underwriting results. The group also continues to address the below average performance on its personal and commercial automobile lines business. The group has recognized the need for reunderwriting, which includes rate increases and improving pricing precision aided by predictive analytics utilization.

The group's market profile continues to improve but still remains somewhat geographically concentrated. As a result, the group remains more exposed to potential economic, legislative and judicial changes than its more geographically diversified peers. This geographic concentration leaves the group susceptible to catastrophe and non-catastrophe weather-related losses as evidenced in recent accident years. Additionally, CIC maintains high common stock leverage relative to its peers. While the stock holdings are comprised of dividend-paying stocks, which enhance investment income, they expose risk-adjusted capitalization to equity market fluctuations.

Positive movement in the issuer credit rating could result from the group maintaining its improvement in underwriting performance on its primary lines of business while controlling any negative implications of its secondary business initiatives, poorer performing personal lines and catastrophe losses, which should allow the group to maintain a strong capital position. Negative issuer credit rating action on the group's ratings could be driven by negative operating or capital impacts from catastrophe losses similar to those experienced in 2011, a stock mar-

ket correction similar to 2009 or its new initiatives, which include increasing its personal lines focus as well as higher risk business written on an assumed basis.

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2011	79,364	15,916	308,941	185,996	90.9
2012	104,961	9,696	377,690	199,133	100.7
2013	127,681	25,660	453,483	228,385	87.8
2014	153,261	42,851	545,827	265,556	81.8
2015	174,678	65,146	630,006	306,470	71.9

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

The following text is derived from A.M. Best's Credit Report on The Cincinnati Insurance Companies (AMB# 004294).

The property/casualty insurance operations of Cincinnati Financial Corporation (CINF) are led by The Cincinnati Insurance Company, which together with its three subsidiaries, is known as The Cincinnati Insurance Companies standard market property/casualty group. The group ranks among the 25 largest property/casualty insurance groups in the country based on net written premium. Through its single channel distribution network of independent agents, the group underwrites a broad array of standard commercial lines and personal lines, primarily in the Midwest and Southeast regions of the United States. Through its subsidiary companies, The Cincinnati Casualty Company, The Cincinnati Indemnity Company, and The Cincinnati Specialty Underwriters Insurance Company (CSU) the group is provided with greater underwriting and pricing flexibility. Surplus lines capability is available through CSU.

In commercial lines, the group targets small-to medium-sized accounts and does not offer unsupported workers' compensation coverage. Based in Ohio, the group generates approximately 16% of direct premiums from its state of domicile. The next four largest markets based on direct writings are Illinois, Indiana, Pennsylvania and Michigan. These five states account for approximately 40% of the group's writings. On a consolidated basis, the group's premium writings are

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split approximately 70% commercial lines and 26% personal lines, with approximately 4% excess and surplus business.

CIC writes qualified commercial accounts on three-year policies with base rates for property and general liability coverages that are unchanged over that term, packaged together with annually underwritten auto, workers' compensation and umbrella coverages. As a result, approximately 75% of commercial premiums are written on one-year policy terms, subject to annual renewal rating. Approximately 25% are written on multi-year terms where the base rates are unchanged at each policy anniversary. This approach provides a marketing and retention advantage while increasing efficiency and convenience for the company, its agents and policyholders.

The Cincinnati Insurance Companies write business through a network of independent agents. There has been considerable progress in recent years in geographical expansion to new states, mainly in the West. Prior to making agency appointments in new states, the group completes a comprehensive analysis to determine if current conditions are conducive to the group's business and risk management strategies, culture and profitability targets. Appointed agencies are supported by property/casualty field underwriters averaging 21 years of underwriting experience. These representatives operate out of their homes, increasing their accessibility to agents, developing greater familiarity with the agents' accounts and eliminating the need for branch offices. The group places great value on maintaining a strong local market presence and believes it is a critical success factor from both an underwriting and claims perspective. CIC and its wholly owned standard market subsidiaries actively market commercial lines admitted products in 39 states and personal lines admitted products in 35 states through independent agencies. CSU offers an array of non-admitted products through an affiliate, CSU Producer Resources Inc. (C-SUPR). C-SUPR was created solely to provide non-admitted products to CIC agents written through CSU. CSU writes a balanced book of business geographically, as well as by class of business, with no more than 25% of written premium represented by any particular class of business. CSU primarily writes within the following industry segments: Construction, Miscellaneous Manufacturing, Miscellaneous Retail and Wholesale Services, Real Estate related, Amusement and Special Events, Bars and Taverns, Fire Suppression Contractors, Habitational (apartments), Janitorial Services, and non-auto Transportation companies such as tire retreaders and truck service repair.

CIC is a wholly owned subsidiary of Cincinnati Financial Corporation (CINF).

Territory: It also operates on a surplus lines or non-admitted basis in the District of Columbia and all states. The company is domiciled in Delaware, where it is licensed to operate on both an admitted and non-admitted basis.

2015 BY-LINE BUSINESS (\$000)

Product Line	—DPW—		Reinsurance —Prem Assumed—	
	(\$000)	(%)	(\$000)	(%)
Oth Liab Occur	123,691	67.4
Prod Liab Occur	25,851	14.1
Fire	13,743	7.5
Allied Lines	10,427	5.7
Oth Liab CM	5,775	3.1
All Other	3,906	2.1

Total	183,392	100.0
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Product Line	Reinsurance —Prem Ceded—		—NPW—		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	
Oth Liab Occur	5,178	59.4	118,513	67.8	95.8
Prod Liab Occur	1	0.0	25,849	14.8	100.0
Fire	1,968	22.6	11,774	6.7	85.7
Allied Lines	1,517	17.4	8,910	5.1	85.4
Oth Liab CM	11	0.1	5,764	3.3	99.8
All Other	38	0.4	3,868	2.2	99.0

Total	8,714	100.0	174,678	100.0	95.2
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HISTORY

The Cincinnati Specialty Underwriters Insurance Company was incorporated on August 13, 2007, under the laws of Delaware and commenced business on January 1, 2008. Initial capitalization of \$200,000,000 as of December 31, 2007, included paid-in capital stock of \$5,250,000 consisting of 3,500 common shares outstanding at \$1,500 par value each and \$194,750,000 of paid-in surplus. Assets transferred totaled \$212,400,000, which included a deferred tax liability of \$12,400,000. There are 10,000 common shares authorized. All shares are Class A shares. There is no preferred stock.

MANAGEMENT

All outstanding capital stock is owned by The Cincinnati Insurance Company, a subsidiary of Cincinnati Financial Corporation, Fairfield, Ohio, a publicly owned holding company that trades on the NASDAQ Global Select Market under the symbol CINF. Administration of the group's affairs is under the direction of experienced insurance executives headed by Chairman of the Board Kenneth W. Stecher and President and Chief Executive Officer Steven J. Johnston.

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Officers: Chairman of the Board, Kenneth W. Stecher; President and Chief Executive Officer, Steven J. Johnston; Executive Vice President, Jacob F. Scherer, Jr.; Senior Vice President and Chief Investment Officer, Martin F. Hollenbeck; Senior Vice President and Chief Information Officer, John S. Kellington; Senior Vice President and Chief Risk Officer, Teresa C. Cracas; Senior Vice President and Chief Claim Officer, Martin J. Mullen; Senior Vice President, Secretary and General Counsel, Lisa A. Love (Corporate); Senior Vice President, Treasurer and Chief Financial Officer, Michael J. Sewell; Senior Vice Presidents, Donald J. Doyle, Jr. (Excess & Surplus Lines), Timothy L. Timmel (Operations).

Directors: William F. Bahl, Gregory T. Bier, Teresa C. Cracas, Donald J. Doyle, Jr., Martin F. Hollenbeck, Steven J. Johnston, John S. Kellington, Lisa A. Love, W. Rodney McMullen, Martin J. Mullen, David P. Osborn, Jacob F. Scherer, Jr., John J. Schiff, Jr., Thomas R. Schiff, Michael J. Sewell, Stephen M. Spray, Kenneth W. Stecher (Chairman), John F. Steele, Jr., Charles P. Stoneburner II, Timothy L. Timmel, William H. Van Den Heuvel, Larry R. Webb.

Balance Sheet Admitted Assets (\$000)

	YE 2015	%
Bonds	\$516,366	82.0
Common stock	71,287	11.3
Cash and short-term invest	<u>14,497</u>	<u>2.3</u>
Total invested assets	\$602,150	95.6
Premium balances	7,286	1.2
Accrued interest	6,019	1.0
All other assets	<u>14,550</u>	<u>2.3</u>
Total assets	\$630,006	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$221,398	35.1
Unearned premiums	82,463	13.1
All other liabilities	<u>19,675</u>	<u>3.1</u>
Total liabilities	\$323,536	51.4
Capital & assigned surplus	200,000	31.7
Unassigned surplus	<u>106,470</u>	<u>16.9</u>
Total policyholders' surplus	\$306,470	48.6
Total liabilities & surplus	\$630,006	100.0

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Why is this *Best's*[®] Rating Report important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is **not a recommendation** to purchase, hold or terminate any insurance

policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete AMB Credit Report. You may obtain the complete report by contacting Customer Service at +1(908)439-2200 or customer_service@ambest.com. Please reference the company's identification number (AMB#) listed on this rating report.

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